

RD AN No.4231 (4274-D)
December 27, 2006

SUBJECT: Intermediary Relending Program
Servicing Clarifications

TO: State Directors, Rural Development

ATTN: Business Program Directors

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide additional guidance on transfers and assumptions and loan classifications as they relate to the Intermediary Relending Program (IRP).

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued regarding this topic.

IMPLEMENTATION RESPONSIBILITIES:

All requests for Transfers and Assumptions must be approved by the National Office Specialty Lenders Division (SLD), in accordance with RD Instructions 1951-R and 4274-D. The SLD will determine whether or not the transferee is an eligible entity. Distinctions as to when fully disbursed and not fully disbursed loans can be transferred is delineated in RD Instruction 4274-D, section 4274.355(b).

Loan terms shall not exceed 30 years from the date of the original promissory note. The documents necessary to complete Transfers and Assumptions should include

1) Assumption Agreement, 2) Consolidated Loan Agreement, 3) Resolution/Intent to Meet Conditions, 4) Assignment and Assumption Agreement, 5) Security Agreement, 6) Resolution Authorizing Execution of Documents, 7) Attorney's Certification Letter, and 8) UCC-1 Filing.

EXPIRATION DATE:
December 31, 2007

FILING INSTRUCTIONS:
Preceding RD Instruction 4274-D

States are encouraged to work closely with the respective Regional Attorney to ensure that the IRP loan is properly closed, secured, and that any legal issues are properly addressed. The Regional Attorney should review the Transfer and Assumption Agreement for legal sufficiency to ensure that any objectionable language is removed from the final documents prior to execution. States should also work with the Finance Office as early as possible to ensure that necessary forms are obtained to complete transfers in the Guaranteed Loan System (GLS) and any other financial systems.

Guidance on Loan Classification codes for the program can be found in the GLS User Guide under Appendix 9A. The loans will be classified as follows:

- (1) Seasoned loan classification: #20. To be classified as a seasoned loan, a loan must:
 - (a) Have a remaining principal loan balance of two thirds or less of the original aggregate of all existing loans made to that intermediary.
 - (b) Be in compliance with all loan conditions and Rural Development regulations.
 - (c) Have been current on the loan(s) payments for 24 consecutive months.
 - (d) Be secured by collateral which is determined to be adequate to ensure there will be no loss on the loan.
- (2) Current non-problem classification: #10. This classification includes those loans which have been current for less than 24 consecutive months and are in compliance with the loan conditions and Rural Development regulations, and are not considered to pose a credit risk to Rural Development. These loans would be classified as seasoned but for the "24 months" and "two-thirds" requirements for seasoned loans.
- (3) Special mention classification: #30. This classification includes loans which do not presently expose Rural Development to a sufficient degree of risk to warrant a Substandard classification but do possess credit deficiencies deserving Rural Development's close attention because the failure to correct these deficiencies could result in greater credit risk in the future. This classification would include loans that may be high quality, but which Rural Development is unable to supervise properly because of an inadequate loan agreement, the condition or lack

of control over the collateral, failure to obtain proper documentation or any other deviations from prudent lending practices. Adverse trends in the intermediary's operation or an imbalanced position in the balance sheet which has not reached a point that jeopardizes the repayment of the loan should be assigned to this classification. Loans in which actual, not potential, weaknesses are evident and significant should be considered for a Substandard classification.

(4) Substandard classification: #40. This classification includes loans which are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans in this classification must have a well defined weakness or weaknesses that jeopardize the payment in full of the debt. If the deficiencies are not corrected, there is a distinct possibility that Rural Development will sustain some loss.

(5) Doubtful classification: #50. This classification includes those loans which have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently known facts, conditions and values, highly questionable and improbable.

(6) Loss classification: #60. This classification includes those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be affected in the future, it is not practical or desirable to defer writing off these basically worthless loans.

If you have any questions concerning the content of this AN, please call Lori Washington (202) 720-9815 or Cindy Mason (202) 690-1433, Specialty Lenders Division Processing Branch.

(Signed by Jackie J. Gleason)

JACKIE J. GLEASON
Administrator
Business and Cooperative Programs